



**Director of
Central
Intelligence**

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National Intelligence Daily

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BRAZIL:

Debt Moratorium

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President Sarney last night announced a suspension of interest payments on Brazil's debt to foreign banks in an effort to rally domestic support for his government and to regain the upper hand in debt rescheduling talks.

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Sarney announced that his government will suspend payments to preserve its foreign exchange reserves. He said Brazil would continue its growth-oriented policies, but added that unspecified restrictive measures on government spending will be imposed soon. Sarney stated that the military high command and his partners in the governing coalition support the suspension.

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The President did not specify the length of the suspension. According to the US Embassy in Brasilia, the suspension only applies to Brazil's \$65 billion medium- and long-term debt to banks. In addition, Brasilia stated that it is prepared to begin the rescheduling negotiations next week.

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Prior to Sarney's announcement, bank stocks dropped slightly in international markets. In addition, Argentina indicated that it would suspend interest payments on its debt if Western banks refuse to provide over \$2 billion in new loans, according to press reports. Mexico, however, stated that it will continue to service its debt.

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Comment: Sarney's move will rally domestic opinion around his embattled administration and probably will fuel the growing economic nationalism in the Constituent Assembly. It may also buy him time to consider additional economic measures—possibly a new price freeze—to rebuild consensus support for his leadership.

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Brasilia almost certainly will approach creditors with demands for interest payment concessions and new money. The banks will be reluctant to meet Brazil's demands—in part because it still has not implemented a comprehensive economic stabilization program. Because of the open-ended nature of the payments suspension, some of them may retaliate by cutting their short-term credits to Brazilian banks, which may come under heavy financial pressure when business resumes Monday.

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Some bank stocks may dip further as the market reacts to the prospect of reduced earnings by the creditors. As a result, the rescheduling negotiations could begin in a tense, confrontational atmosphere.

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LEBANON-SYRIA:**Militia War in West Beirut**

Syria is positioning its forces to intervene in the Beirut fighting; its client Amal remains on the defensive.

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Lebanon late Thursday and early yesterday. A battalion of the 62nd Mechanized Infantry Brigade may have moved from the central Bekaa Valley to Beirut on Wednesday.

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Druze leader Junblatt and his Lebanese Communist allies have been summoned to Damascus to meet with Syrian officials. The US Embassy in Beirut reports Junblatt apparently decided to launch his current offensive against Amal to aid the Palestinians and undermine Shia efforts to dominate the Lebanese political system.

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Moscow is behind the Druze-Communist coalition, citing the attendance earlier this month of a Soviet party official at the Lebanese Communist Party's congress, an event Junblatt also attended.

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The Embassy reports Amal has recaptured some positions in West Beirut but is still losing most clashes.

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Comment: The Syrians probably are augmenting their forces in Beirut in order to implement a cease-fire and intimidate the Druze. Syrian forces must move through the Druze heartland to enter Beirut. Some elements of the 14th Special Forces Division, however, probably are replacements for a battalion of the 62nd Mechanized Infantry Brigade that was recalled to Beirut, but other elements may be moving directly to the city.

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A less likely possibility is that some elements of the 14th may be en route to the Sidon area to prevent a major eruption of fighting between Amal and the Palestinians there.

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The Druze have long had reason to confront Amal; Junblatt probably chose to act now because he judges that Amal is increasingly fragmented and ineffective and that its Syrian patrons will be reluctant to commit enough troops to West Beirut to influence events decisively. Moscow has probably been quietly encouraging the Druze, Communists, and Palestinians to work together, but the leftist alliance and the assault on Amal are more likely the result of Lebanese politics than Soviet design.

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**CENTRAL
AMERICA:****Reactions to New Peace Plan**

Initial reactions in Central America to the new peace plan of Costa Rican President Arias suggest there will be no major breakthrough over the next few months. [redacted]

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While Managua was angered that it was excluded from the talks, it agreed to attend a summit of Central American presidents in May to discuss the Costa Rican initiative and urged that the Arias proposals be incorporated into the Contadora peace plan, according to press reports. The Sandinistas restated their conditions for a regional treaty, however, including cessation of US support for the Nicaraguan rebels. [redacted]

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Reporting from the US Embassy in San Jose [redacted]
[redacted] indicates that the primary goal of Arias is to establish Costa Rica's leadership in resolving regional problems. [redacted]

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Comment: Longstanding efforts by Arias to act as neutral spokesman for the region suggest he will continue pushing the plan, at least until the presidential summit in May. Honduras and El Salvador—concerned that the proposal compromises their security interests—may insist on changes that would place unilateral restrictions on Nicaragua and render the plan unacceptable to Managua and the Contadora mediators. Managua, when aware of San Salvador's and Tegucigalpa's opposition to the Costa Rican proposal, may try to turn that opposition to propaganda advantage by announcing its acceptance of the plan. [redacted]

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The Soviets last fall offered the democracies unspecified assistance in implementing a Contadora settlement and encouraged them to open bilateral talks with Managua. Moscow nonetheless has shown no inclination to press the Sandinistas to make significant concessions in regional negotiations. [redacted]

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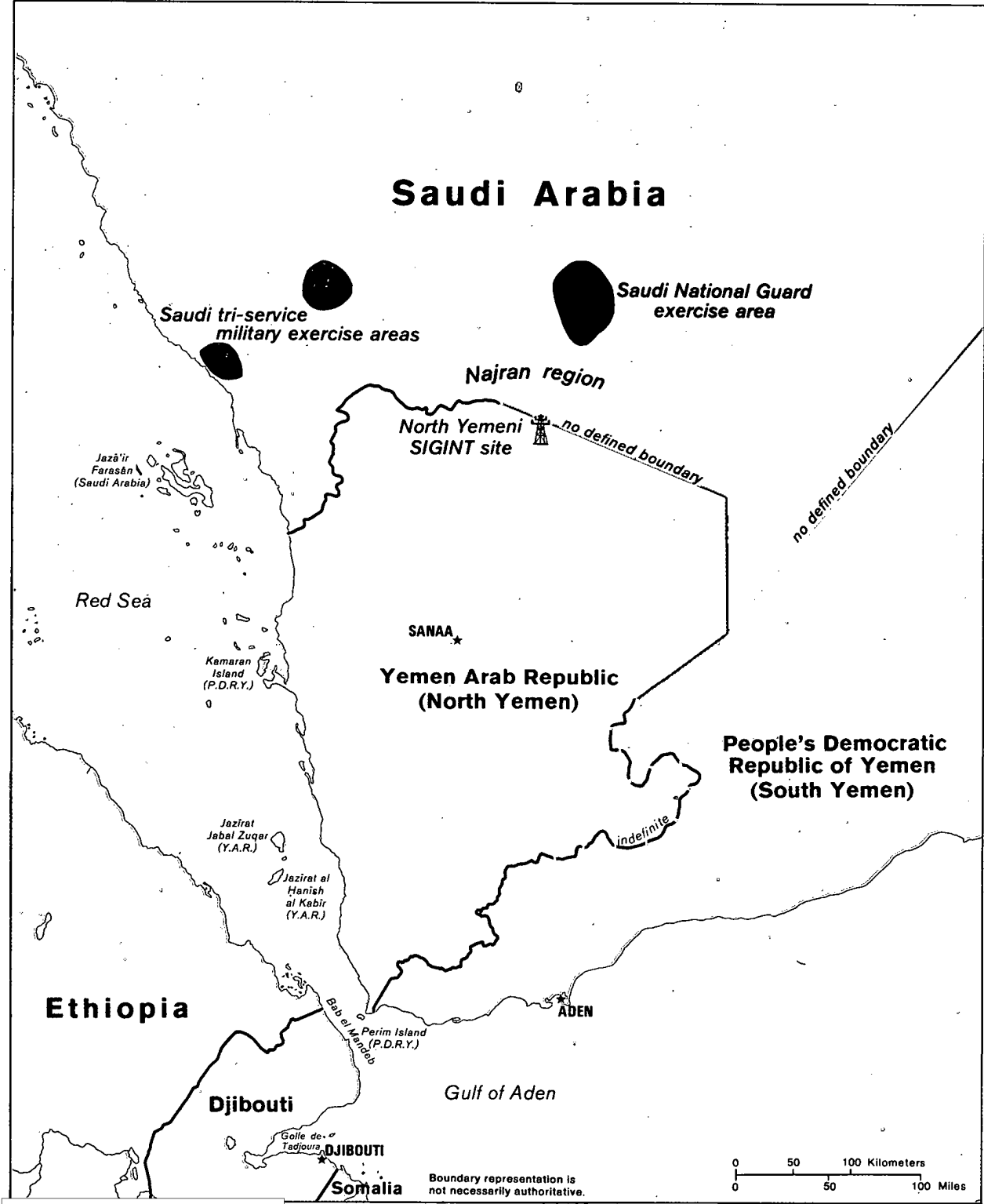
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Saudi-North Yemeni Border Tensions



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**SAUDI ARABIA-
NORTH YEMEN:****Deteriorating Relations**

Saudi Arabia is using military and economic intimidation to apply pressure on North Yemen to resolve their longstanding border dispute. [redacted]

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The US Embassy reports that Saudi Defense Minister Sultan had heated discussions with North Yemen's ambassador about the undemarcated border in the Najran region and threatened to impose a settlement by moving troops into the area. [redacted]

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[redacted] is currently conducting an unusual tri-service military exercise near the border and is planning a large National Guard exercise near Najran next month. [redacted]

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Comment: Riyadh is determined to push for a border settlement and, by holding unprecedented military maneuvers near the border, is clearly signaling its displeasure over the lack of progress. Although the Saudis are frustrated by Salih's intransigence, they also are concerned about North Yemen's stability and see no alternative to Salih's leadership [redacted]

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Salih realizes he cannot stall indefinitely and, despite earlier reluctance, may be willing to compromise to gain badly needed economic aid and reduce Saudi pressure on his beleaguered regime. Even so, he is aware that he must not be seen as capitulating on the border issue. If Salih does not extract concessions from the Saudis, he risks provoking a domestic backlash that could generate an assassination or coup attempt. [redacted]

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ETHIOPIA-SOMALIA: Implications of Recent Clashes

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Ethiopia's support of increased insurgent activity in northern Somalia and its cross-border raid last week suggest that Addis Ababa is prepared to abandon talks with Mogadishu on ending the longstanding dispute over Ethiopia's Ogaden region. According to the US Embassy in Addis Ababa, the lack of progress in the talks over the past year and several Somali attacks on rebel camps in Ethiopia during recent months have eroded any Ethiopian willingness to restrain Somali rebels.

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Comment: The clashes last week appear to have been motivated in part by Ethiopian frustration over Somalia's insistence that confidence-building measures, such as prisoner exchanges, be discussed before talking about demarcation of the frontier. Although increased insurgent activity is not likely to threaten Mogadishu's control in the north, it will strain the capabilities of the Somali Army. Over time, this will increase Mogadishu's criticisms of US military support programs and the recent reduction in US aid.

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COLOMBIA: M-19 Guerrillas To Hold Congress

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Comment: The loss of key leaders, public disfavor, and financial constraints may make it difficult for the M-19 to reach a consensus on its future. Should it fail to fashion a cohesive policy at its congress, the M-19 could splinter, with more hardline factions gaining dominance over the loose alliance of Colombian guerrilla groups. If the group loses out to the financially secure, vehemently anti-US National Liberation Army, US interests in Colombia will be at even greater risk.

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In Brief

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East Asia

Vietnam reportedly hinting at new proposal for negotiations on **Cambodian** conflict ... major concessions unlikely ... may time initiative to coincide with visits of Indian Deputy Foreign Minister, **USSR's** Shevardnadze to add impetus.

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Philippine military on full alert amid rumors Marcos supporters will disrupt marking of President Aquino's first year in office next week ... reformist military officers will hold "countercelebration" ... violence possible, but no threat to government likely.

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Chinese claim **Vietnamese** attacked civilians near border this week ... China may be planning new assaults on Vietnamese outposts at Malipo ... could be timed to coincide with **Thai** Crown Prince's arrival in Beijing Monday.

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Americas

More major anti-government demonstrations in **Surinamese** capital Thursday, yesterday ... government reacting with relative restraint ... if protests persist, Head of Government Bouterse may react more violently.

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Leftist **Honduran** terrorists are reportedly planning anti-US attacks, including kidnappings and sabotage of US bases ... timing unknown ... actions may be intended to force reductions in US assistance to Nicaraguan rebels.

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Salvadoran Supreme Court declared controversial tax to raise more money for military unconstitutional ... will ease rightwing, business opposition to government ... likely to force President Duarte to divert funds from other programs to war.

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Nicaragua has established committee to publicize insurgent attacks on civilian and economic targets ... propaganda effort to include reporting of rebel abuses to UN and OAS.

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Brazil announced discovery of third oilfield in Campos Basin, deepest offshore field so far ... may contain 400 million barrels, increasing reserves to more than 5 billion barrels ... research under way on technology to develop such fields.

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Europe

Italian Foreign Minister Andreotti to **USSR** next Thursday ... expects to sign agreement expanding scientific ties ... trip designed to improve Andreotti's chances to replace Prime Minister Craxi if latter honors agreement to step down next month.

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West Germany sending ambassador to **Syria** ... post vacant since October, when Damascus was linked to West Berlin terrorist bombing ... Bonn probably hoping for greater Syrian assistance in freeing West German hostages in **Lebanon**.

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Greece announced plans to take control of foreign oil consortium this spring ... probably wants to prevent drilling in disputed Aegean waters without appearing to yield claim vis-a-vis **Turkey** ... action will discourage foreign investment.

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Conviction of former **West German** Economics Minister Lambsdorff on tax evasion charges ends Flick scandal over party funding ... Cabinet post in new government unlikely, but resuming important role in Free Democratic Party possible.

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New **French** ambassador to NATO, diplomat Gabriel Robin, described as strongly nationalistic, critical of pervasive US role in West European defense ... appointment reflects France's intention to assert greater control over its security.

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Middle East

Iran claims it has moved nuclear material to unfinished Bushehr nuclear power plant ... warns of fallout if facility is attacked ... no corroborating evidence ... may be attempt to forestall threatened Iraqi attack.

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Egypt, Sudan have signed \$285 million trade agreement, first in 22 years ... Cairo agreed to devalue bilateral exchange rate by 40 percent, increase trade volume ... political relations will be slow to improve.

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Two **Iranians** who claim to be Islamic Jihad members seeking help in obtaining US visas in **Turkey**.

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... possibly anti-Khomeini dissidents hoping to embarrass Tehran.

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Special Analysis**NICARAGUA:****Trends in Fighting**

Anti-Sandinista rebels have increased their presence and activities in central and northwestern Nicaragua since the beginning of the year through steady infiltration from Honduras. Whenever the Sandinistas have detected insurgent units, they have pursued them aggressively and have carried out a number of successful ambushes. The rebels may soon launch limited raids farther west into the Pacific region but probably will focus mainly on strengthening their position in the interior highlands.

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About 9,000 combatants of the Nicaraguan Democratic Force were in Nicaragua early this month and infiltration was continuing.

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Most of the rebels have infiltrated east of the Las Vegas salient, but some apparently have used previously abandoned routes to the west. Perhaps 1,500 more guerrillas are operating along the Caribbean coast and in the far south.

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Most of the rebels who infiltrated in late December and January have reached their operating areas in central and northwestern Nicaragua and are conducting sabotage, road ambushes, and attacks on small military posts. The destruction of two electrical towers near Sebaco on 9 February reportedly knocked out power to the area for at least two days.

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Some infiltrating insurgents have been vulnerable to detection and attack because they were operating in large units—more than 100 men—

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group of several hundred rebels lost two commanders and took numerous casualties in a government ambush in central Nicaragua early this month.

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The Sandinista Defense

The Sandinistas have pulled their counterinsurgency battalions back to central Nicaragua since their incursion into Honduras two months ago, leaving only border troops to stem infiltrations. Managua has concentrated its elite troops at choke points, such as river valleys and road crossings, to strike the rebels after they have depleted some supplies but before they break down into smaller units that are more difficult to detect. [REDACTED]

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Outlook

The rebels probably will try to cut roads and other communications links in the eastern half of Nicaragua and may stage a few spectacular attacks, such as a raid on a forward airfield, to boost their stature. More reliable aerial resupply—at least three drops have been made in the past month—could permit them to operate in substantial numbers for longer periods inside Nicaragua, thereby increasing the opportunities to develop support networks among civilian sympathizers. [REDACTED]

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Special Analysis

SRI LANKA-INDIA: Military Pressure on Tamils

Both the Sri Lankan Government and the main Tamil insurgent group are maneuvering militarily and politically, but neither has shown any willingness to make compromises to resolve the conflict. The limited offensives against the militants have strengthened the government's negotiating position, but Colombo still is not able to defeat the insurgents completely. The insurgents have hinted they might accept something less than an independent state, but also continue to receive arms shipments, indicating they are preparing for a prolonged struggle. Government operations will continue for a few more weeks, but ultimately President Jayewardene will probably pursue a political solution, counting on pressure from India to wring some compromise from the insurgents.

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Colombo recently launched its third military offensive against the Liberation Tigers this year in an effort to force them to the negotiating table and to reassert government authority in guerrilla-controlled areas of the north. In addition to attacking insurgent camps, government troops have undertaken mine-clearing operations and will probably attempt to reopen ground communication routes.

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By authorizing military action against the insurgents, Jayewardene probably undercut much of the military's opposition to the negotiation process. In addition, government military operations this year, although less ambitious than previous efforts, have shown better advanced planning and execution. The insurgents seem to have gained a grudging respect for government forces, once considered inept and unprofessional.

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Maneuvering by Tigers

The Tigers seem prepared to continue their military struggle against Colombo but have not ruled out negotiations.

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~~In combat operations early this month, the Tigers avoided contact with government patrols and, according to a source of the US Embassy, abandoned at least one of their camps before government~~

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~~Troops arrived.~~ The Tigers may be planning to let Colombo overextend its forces in the north before making a concerted attack.

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Recent actions by the militants seem to suggest that they are interested in negotiations with Colombo. Discussions in December between both sides made no headway on substantive issues, but over the past few months the Tigers have quietly dropped their demand for a separate Tamil nation. Early this month a Tiger spokesman said that, while a Tamil homeland is central to a negotiated settlement, the Tigers might agree to a substantial alternative if India acts as guarantor.

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Indian Reaction

India is pressing both sides in an effort to get negotiations back on track. New Delhi told Colombo privately in mid-February that it welcomes the latest government offensives, and is content to let the two sides fight for several more weeks, hoping that government success will persuade Prabhakaran to come to the negotiating table, ~~according to the US Embassy in Colombo.~~ In a demarche this week, however, the Indian High Commissioner told Colombo that unless military operations cease immediately, New Delhi would reassess its mediatory role.

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Outlook

Government military operations will continue and perhaps intensify during the next few weeks, but Colombo will not be able to carry out an offensive that will cripple the insurgency. Jayewardene almost certainly will try to resolve the conflict politically, probably by the end of this year and certainly before campaigning for the general election in 1989 begins.

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If government military success continues, the Tigers may enter token negotiations with Colombo, if only to buy time. The concessions Colombo is now willing to offer, however, fall far short of what Prabhakaran is willing to accept, and meaningful progress remains unlikely.

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